

ALLERGAN INC
Form 10-Q
November 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the Quarterly Period Ended September 30, 2013
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

Commission File Number 1-10269
Allergan, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware 95-1622442
(State or Other Jurisdiction of
Incorporation or Organization) (I.R.S. Employer Identification No.)

2525 Dupont Drive 92612
Irvine, California (Zip Code)
(Address of Principal Executive Offices)
(714) 246-4500
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of October 31, 2013, there were 307,554,060 shares of common stock outstanding (including 10,391,641 shares held in treasury).

ALLERGAN, INC.
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
Revenues:				
Product net sales	\$ 1,528.4	\$ 1,353.7	\$ 4,537.9	\$ 4,101.5
Other revenues	30.3	22.8	78.1	73.0
Total revenues	1,558.7	1,376.5	4,616.0	4,174.5
Operating costs and expenses:				
Cost of sales (excludes amortization of intangible assets)	192.2	182.9	591.2	568.2
Selling, general and administrative	589.3	522.9	1,804.0	1,650.8
Research and development	257.6	289.8	772.9	737.5
Amortization of intangible assets	28.8	22.8	88.5	67.2
Restructuring charges	0.6	0.6	4.9	1.5
Operating income	490.2	357.5	1,354.5	1,149.3
Non-operating income (expense):				
Interest income	1.5	1.9	5.1	4.8
Interest expense	(19.4	) (15.9	) (56.8	) (48.8
Other, net	(15.5	) (9.2	) (13.0	) (19.3
	(33.4	) (23.2	) (64.7	) (63.3
Earnings from continuing operations before income taxes	456.8	334.3	1,289.8	1,086.0
Provision for income taxes	123.9	81.4	329.9	307.6
Earnings from continuing operations	332.9	252.9	959.9	778.4
Discontinued operations:				
Earnings (loss) from discontinued operations, net of applicable income tax expense (benefit) of \$2.7 million and \$(1.2) million for the three months ended September 30, 2013 and 2012, respectively, and \$6.4 million and \$(1.0) million for the nine months ended September 30, 2013 and 2012, respectively	5.5	(2.3	) 13.1	(1.1
Expected loss on sale of discontinued operations, net of applicable income tax benefit of \$21.1 million and \$108.3 million for the three and nine months ended September 30, 2013, respectively	(37.6	) —	(296.6) —
Discontinued operations	(32.1	) (2.3	) (283.5	) (1.1
Net earnings	300.8	250.6	676.4	777.3
Net earnings attributable to noncontrolling interest	1.0	1.2	4.2	2.7

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Net earnings attributable to Allergan, Inc.	\$299.8	\$ 249.4	\$672.2	\$ 774.6
Basic earnings per share attributable to Allergan, Inc. stockholders:				
Continuing operations	\$ 1.12	\$ 0.84	\$3.22	\$ 2.57
Discontinued operations	(0.11	) (0.01	) (0.95	) (0.01
Net basic earnings per share attributable to Allergan, Inc. stockholders	\$ 1.01	\$ 0.83	\$2.27	\$ 2.56
Diluted earnings per share attributable to Allergan, Inc. stockholders:				
Continuing operations	\$ 1.10	\$ 0.82	\$3.17	\$ 2.52
Discontinued operations	(0.10	) —	(0.94) —
Net diluted earnings per share attributable to Allergan, Inc. stockholders	\$ 1.00	\$ 0.82	\$2.23	\$ 2.52

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net earnings	\$ 300.8	\$ 250.6	\$ 676.4	\$ 777.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	31.0	14.9	(8.1)	(2.1)
Amortization of deferred holding gains on derivatives designated as cash flow hedges included in net earnings, net of income tax benefit of \$0.1 million for the three months ended September 30, 2013 and 2012, respectively, and \$0.4 million for the nine months ended September 30, 2013 and 2012, respectively	(0.2)	(0.2)	(0.6)	(0.6)
Other comprehensive income (loss)	30.8	14.7	(8.7)	(2.7)
Total comprehensive income	331.6	265.3	667.7	774.6
Comprehensive income attributable to noncontrolling interest	1.8	2.1	3.0	3.4
Comprehensive income attributable to Allergan, Inc.	\$ 329.8	\$ 263.2	\$ 664.7	\$ 771.2

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,686.3	\$ 2,701.8
Short-term investments	524.6	260.6
Trade receivables, net	908.2	739.0
Inventories	280.0	272.3
Other current assets	440.0	448.6
Assets held for sale	93.3	512.6
Total current assets	4,932.4	4,934.9
Investments and other assets	191.6	192.1
Deferred tax assets	120.2	206.9
Property, plant and equipment, net	877.0	851.5
Goodwill	2,334.0	2,133.8
Intangibles, net	1,689.4	860.1
Total assets	\$ 10,144.6	\$ 9,179.3
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	\$ 37.2	\$ 48.8
Accounts payable	267.8	232.2
Accrued compensation	241.9	222.4
Other accrued expenses	632.6	586.8
Income taxes	16.9	—
Liabilities held for sale	3.3	5.3
Total current liabilities	1,199.7	1,095.5
Long-term debt	2,101.5	1,512.4
Other liabilities	730.3	708.8
Commitments and contingencies		
Equity:		
Allergan, Inc. stockholders' equity:		
Preferred stock, \$.01 par value; authorized 5,000,000 shares; none issued	—	—
Common stock, \$.01 par value; authorized 500,000,000 shares; issued 307,554,060 shares as of September 30, 2013 and 307,537,860 shares as of December 31, 2012	3.1	3.1
Additional paid-in capital	3,005.2	2,900.6
Accumulated other comprehensive loss	(252.1)	(244.6)
Retained earnings	4,363.6	3,832.1
	7,119.8	6,491.2
Less treasury stock, at cost (10,407,370 shares as of September 30, 2013 and 7,213,757 shares as of December 31, 2012)	(1,033.9)	(654.1)
Total stockholders' equity	6,085.9	5,837.1
Noncontrolling interest	27.2	25.5
Total equity	6,113.1	5,862.6
Total liabilities and equity	\$ 10,144.6	\$ 9,179.3

See accompanying notes to unaudited condensed consolidated financial statements.

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ALLERGAN, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Cash flows from operating activities:		
Net earnings	\$676.4	\$ 777.3
Non-cash items included in net earnings:		
Depreciation and amortization	195.1	191.4
Amortization of original issue discount and debt issuance costs	1.9	1.4
Amortization of net realized gain on interest rate swaps	(10.8)	(4.2)
Deferred income tax benefit	(134.1)	(40.6)
Loss on disposal and impairment of assets	3.9	5.0
Unrealized (gain) loss on derivative instruments	(4.3)	15.2
Expense of share-based compensation plans	84.6	79.7
Expected loss on sale of discontinued operations	404.9	—
Expense from changes in fair value of contingent consideration	4.8	15.8
Restructuring charges	4.9	4.7
Loss on investment	3.7	—
Changes in operating assets and liabilities:		
Trade receivables	(173.4)	(151.1)
Inventories	(22.6)	(12.2)
Other current assets	23.2	(19.4)
Other non-current assets	(8.2)	46.5
Accounts payable	22.6	13.6
Accrued expenses	58.1	114.0
Income taxes	20.4	38.4
Other liabilities	29.0	24.5
Net cash provided by operating activities	1,180.1	1,100.0
Cash flows from investing activities:		
Purchases of short-term investments	(644.5)	(704.6)
Acquisitions, net of cash acquired	(892.1)	(3.1)
Additions to property, plant and equipment	(97.4)	(98.1)
Additions to capitalized software	(8.6)	(7.5)
Additions to intangible assets	(0.3)	(4.1)
Proceeds from maturities of short-term investments	380.5	604.7
Proceeds from sale of property, plant and equipment	0.4	1.3
Net cash used in investing activities	(1,262.0)	(211.4)
Cash flows from financing activities:		
Dividends to stockholders	(44.6)	(45.4)
Payments to acquire treasury stock	(649.3)	(723.3)
Payments of contingent consideration	(11.1)	(5.1)
Net repayments of notes payable	(11.6)	(43.1)
Debt issuance costs	(4.8)	—
Proceeds from issuance of senior notes, net of discount	598.5	—

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Sale of stock to employees	160.1	153.9
Excess tax benefits from share-based compensation	33.6	24.5
Net cash provided by (used in) financing activities	70.8	(638.5)
Effect of exchange rate changes on cash and equivalents	(4.4)	(1.2)
Net (decrease) increase in cash and equivalents	(15.5)	248.9
Cash and equivalents at beginning of period	2,701.8	2,406.1
Cash and equivalents at end of period	\$2,686.3	\$ 2,655.0
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest, net of amount capitalized	\$55.0	\$ 39.9
Income taxes, net of refunds	\$290.8	\$ 261.3
See accompanying notes to unaudited condensed consolidated financial statements.		

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2012. The Company prepared the unaudited condensed consolidated financial statements following the requirements of the U.S. Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. The results of operations for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013 or any other period(s).

Reclassifications

Certain reclassifications of prior year amounts have been made to conform with the current year presentation. On February 1, 2013, the Company completed its previously announced review of strategic options for maximizing the value of its obesity intervention business, and formally committed to pursue a sale of that business unit. Accordingly, beginning in the first quarter of 2013, the Company has reported the financial results from that business unit as discontinued operations in the consolidated statements of earnings and has classified the related assets and liabilities as held for sale in the consolidated balance sheet. The prior period consolidated statements of earnings and consolidated balance sheet as of December 31, 2012 have been retrospectively revised to reflect the obesity intervention business unit as discontinued operations and the related assets and liabilities as held for sale.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update that requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amounts are required to be reclassified in their entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance became effective for reporting periods beginning after December 15, 2012, with early adoption permitted. The Company adopted the provisions of the guidance in the first quarter of 2013 and had no significant reclassifications out of accumulated other comprehensive income to net income during the third quarter and the first nine months of 2013.

In July 2012, the FASB issued an accounting standards update that gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. This guidance became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted the provisions of the guidance in the first quarter of 2013. The adoption did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Not Yet Adopted

In July 2013, the FASB issued an accounting standards update that requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. This guidance will be effective for fiscal years beginning after December 15, 2013, which will be the Company's fiscal year 2014, with early adoption permitted. The Company currently does not expect the adoption of the guidance will have a material impact on the Company's consolidated financial statements.

In March 2013, the FASB issued an accounting standards update that provides guidance on the accounting for the cumulative translation adjustment (CTA) upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. Under this guidance, an entity should recognize the CTA in

earnings based on meeting certain criteria, including when it ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity or upon a sale or transfer that results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets resides. This guidance will be effective for fiscal years beginning on or after December 15, 2013, which will be

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the Company's fiscal year 2014, with early adoption permitted. The Company currently does not expect the adoption of the guidance will have a material impact on the Company's consolidated financial statements.

Note 2: Acquisitions and Collaborations

MAP Acquisition

On March 1, 2013, the Company completed the acquisition of MAP Pharmaceuticals, Inc. (MAP), a biopharmaceutical company based in the United States focused on developing and commercializing new therapies in neurology, including Levadex[®], an orally inhaled drug for the potential acute treatment of migraine in adults, for an aggregate purchase price of approximately \$871.7 million, net of cash acquired. The acquisition was funded from a combination of current cash and equivalents and short-term investments.

The Company recognized tangible and intangible assets acquired and liabilities assumed in connection with the MAP acquisition based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair value of net assets acquired was recognized as goodwill. The goodwill acquired in the MAP acquisition is not deductible for federal income tax purposes. In connection with the acquisition, the Company acquired assets with a fair value of \$1,232.9 million, consisting of current assets of \$2.3 million, property, plant and equipment of \$7.7 million, other non-current assets of \$0.3 million, deferred tax assets of \$136.5 million, intangible assets of \$915.6 million and goodwill of \$170.5 million, and assumed liabilities of \$361.2 million, consisting of current liabilities of \$27.4 million and deferred tax liabilities of \$333.8 million.

The intangible assets consist of an in-process research and development asset of \$683.5 million associated with Levadex[®], which is currently under review with the U.S. Food and Drug Administration (FDA), and a core technology asset of \$232.1 million associated with MAP's proprietary Tempo[®] delivery system that has an estimated useful life of 15 years.

Goodwill represents the excess of the MAP purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The MAP acquisition broadens the Company's product offering for the treatment of migraine headaches and MAP's proprietary drug particle and inhalation technology provides the potential for new product development opportunities, which the Company believes support the amount of goodwill recognized as a result of the purchase price paid for MAP, in relation to other acquired tangible and intangible assets.

Exemplar Acquisition

On April 12, 2013, the Company completed the acquisition of Exemplar Pharma, LLC (Exemplar), a third party contract manufacturer for MAP's Tempo[®] delivery system, for an aggregate purchase price of approximately \$16.1 million, net of cash acquired. Prior to the acquisition, the Company also had a \$1.9 million payable to Exemplar, which was effectively settled upon the acquisition. In connection with the acquisition, the Company acquired assets with a fair value of \$16.6 million, consisting of current assets of \$0.5 million, property, plant and equipment of \$2.1 million and goodwill of \$14.0 million, and assumed current liabilities of \$0.5 million. The goodwill acquired in the Exemplar acquisition is deductible for federal income tax purposes.

SkinMedica Acquisition

On December 19, 2012, the Company completed the acquisition of SkinMedica, Inc. (SkinMedica), a privately-held aesthetics skin care company based in the United States focused on developing and commercializing products that improve the appearance of skin, for an upfront payment of \$348.9 million, net of cash acquired. The Company may also be required to pay up to an additional \$25.0 million, contingent upon acquired products achieving certain sales milestones. The estimated fair value of the contingent consideration as of the acquisition date was \$2.2 million. The acquisition was funded from the Company's cash and equivalents balances.

The Company recognized tangible and intangible assets acquired, liabilities assumed and the contingent consideration liability in connection with the SkinMedica acquisition based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair value of net assets acquired was recognized as goodwill. The goodwill acquired in the SkinMedica acquisition is not deductible for federal income tax purposes. In connection with the

acquisition, the Company acquired assets with a fair value of \$438.3 million, consisting of current assets of \$30.2 million, property, plant and equipment of \$6.6 million, deferred tax assets of \$40.6 million, intangible assets of \$200.9 million and goodwill of \$160.0 million, and assumed liabilities of \$87.2 million, consisting of current liabilities of \$11.2 million and deferred tax liabilities of \$76.0 million. As of September 30, 2013, the total estimated fair value of the contingent consideration of \$2.2 million was included in "Other liabilities."

The intangible assets consist of developed technology, customer relationships, trademarks and an in-process research and

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

development asset. Acquired developed technology assets consist of the currently marketed SkinMedica® family of products, including the TNS (Tissue Nutrient Solution) products, Vaniqua®, Lytera® and scar recovery gel. The amounts assigned to each class of intangible assets and the related weighted average amortization periods are summarized in the following table:

	Value of Intangible Assets Acquired (in millions)	Weighted Average Amortization Period (in years)
Developed technology	\$87.5	10.6
Customer relationships	50.6	2.7
Trademarks	62.5	15.0
In-process research and development	0.3	—
	\$200.9	

Goodwill represents the excess of the SkinMedica purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The SkinMedica acquisition complements the Company's existing facial aesthetics business and enables the Company to take a leadership position in the growing physician-dispensed topical aesthetics skin care market and to create certain sales and marketing operating synergies, which the Company believes support the amount of goodwill recognized as a result of the purchase price paid for SkinMedica, in relation to other acquired tangible and intangible assets.

Purchase of Distributor's Business in Russia

On February 1, 2012, the Company terminated its existing distributor agreement in Russia and completed the purchase from its distributor of all assets related to the selling and distribution of the Company's products in Russia. The termination of the existing distributor agreement and purchase of the commercial assets enabled the Company to initiate direct operations for its medical aesthetics and neurosciences businesses in Russia.

The purchase of the commercial assets was accounted for as a business combination. In connection with the purchase of the assets, the Company paid \$3.1 million, net of a \$6.6 million pre-existing net receivable from the distributor, and is also required to pay additional contingent consideration based on certain contractual obligations of the former distributor over a two year period from the acquisition date. The estimated fair value of the contingent consideration as of the acquisition date was \$4.7 million. The Company acquired assets with a fair value of \$14.4 million, consisting of inventories of \$2.0 million, intangible assets of \$8.6 million and goodwill of \$3.8 million. No liabilities were assumed in connection with the purchase. The intangible assets relate to customer relationships that have an estimated useful life of three years and other contractual rights that have an estimated useful life of two years. As of September 30, 2013, the total estimated fair value of the contingent consideration of \$2.0 million was included in "Other accrued expenses."

The Company believes that the fair values assigned to the assets acquired, liabilities assumed and the contingent consideration liabilities were based on reasonable assumptions. The Company's fair value estimates may change during the allowable measurement period, which is up to one year from the acquisition date, if additional information becomes available.

Molecular Partners AG Collaboration

On August 21, 2012, the Company announced that it entered into two separate agreements with Molecular Partners AG to discover, develop, and commercialize proprietary therapeutic DARPin® products for the treatment of serious ophthalmic diseases. The first agreement is an exclusive license agreement for the design, development and commercialization of a potent dual anti-VEGF-A/PDGF-B DARPin® (MP0260) and its corresponding backups for the treatment of exudative (wet) age-related macular degeneration and related conditions. The second agreement is an exclusive discovery alliance agreement under which the parties are collaborating to design and develop DARPin®

products against selected targets that are implicated in causing serious diseases of the eye. Under the terms of the agreements, the Company made combined upfront payments of \$62.5 million to Molecular Partners AG in August 2012, which were recorded as research and development (R&D) expense in the third quarter of 2012 because the technology has not yet achieved regulatory approval. The terms of the agreements also include potential future development, regulatory and sales milestone payments to Molecular Partners AG of up to \$1.4 billion, as well as potential future royalty payments.

On May 4, 2011, the Company announced a license agreement with Molecular Partners AG pursuant to which the Company obtained exclusive global rights in the field of ophthalmology for MP0112, a Phase II proprietary therapeutic anti-VEGF DARPin®

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ALLERGAN, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

protein under investigation for the treatment of retinal diseases. Under the terms of the agreement, the Company made a \$45.0 million upfront payment to Molecular Partners AG in May 2011, which was recorded as R&D expense in the second quarter of 2011 because the technology has not yet achieved regulatory approval. The terms of the agreement also include potential future development, regulatory and sales milestone payments to Molecular Partners AG of up to \$375.0 million, as well as potential future royalty payments.

Under the exclusive license agreements, subject to certain limited exceptions, the Company is responsible for and incurs all expenses related to the conduct of all development activities; the preparation, filing and maintaining of all regulatory materials; the planning and implementation of all commercial activities; and all manufacturing activities. Under the exclusive discovery alliance agreement, during the research term each party will bear all expenses it incurs to conduct its respective activities, subject to certain limited exceptions. Milestone payments made by the Company to Molecular Partners AG pursuant to these agreements prior to the achievement of regulatory approval are immediately recognized and recorded as R&D expense. Milestone payments, if any, that are made upon, or subsequent to, regulatory approval will be capitalized as intangible assets and amortized over the estimated remaining commercial life of the underlying technology.

Other Collaborations

On September 25, 2013, the Company announced that it had entered into a license agreement with Medytox, Inc. (Medytox) pursuant to which, upon closing, the Company will pay Medytox an upfront payment of \$65.0 million and Medytox will grant the Company exclusive rights, worldwide outside of Korea, to develop and, if approved, commercialize certain neurotoxin product candidates currently in development, including a potential liquid-injectable product. The terms of the agreement also include potential future development milestone payments of up to \$116.5 million and potential future sales milestone payments of up to \$180.5 million, as well as potential future royalty payments. The closing of the transaction is contingent on obtaining certain government approvals.

On September 10, 2013, the Company entered into a license and collaboration agreement with a third party pursuant to which the Company obtained exclusive global rights to research, manufacture and commercialize certain technologies for the treatment of ocular disease. Under the terms of the agreement, the Company made a \$6.5 million upfront payment, which was recorded as R&D expense in the third quarter of 2013 because the technology has not yet achieved regulatory approval. The terms of the agreement also include potential future payments to the third party related to the Company's achievement of development, regulatory and sales milestone events, as well as potential future royalty payments.

In March 2010, the Company and Serenity Pharmaceuticals, LLC (Serenity) entered into an agreement for the license, development and commercialization of a Phase III investigational drug currently in clinical development for the treatment of nocturia, a common urological disorder in adults characterized by frequent urination at night time. In conjunction with the agreement, the Company made an upfront payment to Serenity of \$43.0 million. In December 2010, the Company and Serenity executed a letter agreement which specified terms and conditions governing additional development activities for a new Phase III trial which were not set forth in the original agreement. Under the letter agreement, the Company agreed to share 50% of the cost of additional development activities for the new Phase III trial. Since the Company is providing a significant amount of the funding for the new Phase III trial, it determined that Serenity is a variable interest entity (VIE). However, the Company determined that it is not the primary beneficiary of the VIE because it does not possess the power to direct Serenity's research and development activities, which are the activities that most significantly impact Serenity's economic performance. The Company's maximum future exposure to loss is the Company's share of additional development activities.

In connection with various business development transactions where the Company has outlicensed its technology to third parties, the Company has aggregate potential future milestone receipts of approximately \$35.7 million as of September 30, 2013, none of which are individually significant. Of that amount, approximately \$3.5 million relates to achievement of certain development milestones, approximately \$12.0 million relates to achievement of certain regulatory milestones, and approximately \$20.2 million relates to achievement of certain commercial sales milestones.

Due to the challenges associated with developing and obtaining approval for pharmaceutical products, there is substantial uncertainty whether any of the future milestones will be achieved. The Company evaluates whether milestone payments are substantive based on the facts and circumstances associated with each milestone payment.

Note 3: Discontinued Operations

On February 1, 2013, the Company completed its previously announced review of strategic options for maximizing the value of its obesity intervention business, and formally committed to pursue a sale of that business unit. As a result of the Company's approved plan to pursue a sale of its obesity intervention business unit, beginning in the first quarter of 2013, the Company has

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

reported the financial results from that business unit in discontinued operations in its consolidated statements of earnings and has classified the related assets and liabilities as held for sale in its consolidated balance sheet. The prior period consolidated statements of earnings and consolidated balance sheet as of December 31, 2012 have been retrospectively revised to reflect the obesity intervention business unit as discontinued operations and the related assets and liabilities as held for sale.

The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the obesity intervention business. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the obesity intervention business unit do not necessarily reflect what the results of operations would have been had the business operated as a stand-alone entity.

The following table summarizes the results of operations from discontinued operations:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
	(in millions)			
Product net sales	\$29.3	\$ 37.4	\$94.5	\$ 122.7
Operating costs and expenses:				
Cost of sales (excludes amortization of intangible assets)	5.4	5.8	15.9	18.1
Selling, general and administrative	14.4	18.0	44.8	59.8
Research and development	1.3	3.5	4.0	12.8
Amortization of intangible assets	—	10.4	10.3	30.9
Restructuring charges	—	3.2	—	3.2
Earnings (loss) from discontinued operations before income taxes	\$8.2	\$ (3.5)	\$19.5	\$ (2.1)
Earnings (loss) from discontinued operations, net of income taxes	\$5.5	\$ (2.3)	\$13.1	\$ (1.1)

In the first quarter of 2013, the Company also reported a separate estimated pre-tax disposal loss of \$346.2 million (\$259.0 million after tax) related to the obesity intervention business unit from the write-down of the net assets held for sale to their estimated fair value less costs to sell. The Company determined the estimated fair value of the net assets held for sale based on a range of indicative purchase prices received from prospective buyers participating in an orderly sales process. The net assets held for sale include a portion of the Company's medical devices reporting unit's goodwill allocated to the obesity intervention business based on the relative fair value as of February 1, 2013 of that business to the portion of the medical devices reporting unit that the Company will retain. During the first quarter of 2013, the Company tested the remaining goodwill of the medical devices reporting unit for impairment and concluded that no impairment was indicated.

On October 28, 2013, the Company entered into a definitive agreement to sell its obesity intervention business to Apollo Endosurgery, Inc. (Apollo) for an upfront cash payment of \$75.0 million, subject to certain adjustments, and certain additional consideration, including a \$15.0 million minority equity interest in Apollo and contingent consideration of up to \$20.0 million to be paid upon the achievement of certain regulatory and sales milestones. The transaction is expected to close in 2013, subject to customary closing conditions. In the third quarter of 2013, the Company recorded an additional pre-tax disposal loss of \$58.7 million (\$37.6 million after tax) from the write-down of the net assets held for sale to their estimated fair value based on the terms of the sale agreement.

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The following table summarizes the assets and liabilities held for sale related to the Company's obesity intervention business unit as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(in millions)	
Assets:		
Trade receivables, net	\$22.2	\$ 25.2
Inventories	10.1	10.6
Property, plant and equipment, net	1.2	1.4
Goodwill	105.7	105.7
Intangibles, net	358.7	369.0
Other assets	0.3	0.7
Valuation allowance	(404.9) —
Total assets held for sale	\$93.3	\$ 512.6
Liabilities:		
Accounts payable	\$0.8	\$ 0.9
Accrued expenses	2.4	4.1
Other liabilities	0.1	0.3
Total liabilities held for sale	\$3.3	\$ 5.3

Note 4: Restructuring Charges and Integration Costs

In connection with the March 2013 acquisition of MAP, the April 2013 acquisition of Exemplar and the December 2012 acquisition of SkinMedica, the Company initiated restructuring activities to integrate the operations of the acquired businesses with the Company's operations and to capture synergies through the centralization of certain research and development, manufacturing, general and administrative and commercial functions. The restructuring charges primarily consist of employee severance and other one-time termination benefits for approximately 111 people. In the first quarter of 2013, the Company recorded \$4.3 million of restructuring charges. In the second quarter of 2013, the Company recorded a \$0.9 million restructuring charge reversal. In the third quarter of 2013, the Company recorded an additional \$0.6 million of restructuring charges.

Included in the nine month period ended September 30, 2013 are \$0.9 million of restructuring charges for employee severance and other one-time termination benefits related to the realignment of various business functions initiated in 2013. Included in the three and nine month periods ended September 30, 2012 are \$0.7 million of restructuring charges for employee severance and other one-time termination benefits related to the realignment of various business functions initiated in 2012. Included in the three and nine month periods ended September 30, 2012 are a \$0.1 million restructuring charge reversal and \$0.8 million of restructuring charges, respectively, related to restructuring activities initiated in prior years.

Included in the three month period ended September 30, 2013 are \$3.4 million of SG&A expenses and in the nine month period ended September 30, 2013 \$0.1 million of cost of sales and \$18.5 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. Included in the three month period ended September 30, 2012 are \$0.1 million of SG&A expenses and in the nine month period ended September 30, 2012 \$0.1 million of cost of sales and \$0.6 million of SG&A expenses related to transaction and integration costs associated with the purchase of various businesses and collaboration agreements. For the nine month period ended September 30, 2013, these costs primarily consist of investment banking and legal fees. In addition, included in the three month period ended September 30, 2013 are \$1.4 million of SG&A expenses and \$0.2 million of R&D expenses and in the nine month period ended September 30, 2013 \$1.6 million of SG&A

expenses and \$0.9 million of R&D expenses related to the realignment of various business functions. Included in the three month period ended September 30, 2012 are \$0.3 million of SG&A expenses and in the nine month period ended September 30, 2012 \$0.8 million of SG&A expenses and \$0.3 million of R&D expenses related to the realignment of various business functions. The SG&A and R&D expenses related to the realignment of various business functions primarily consist of one-time termination benefits earned based on specified retention periods and losses on the disposal of fixed assets.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 5: Intangibles and Goodwill

Intangibles

At September 30, 2013 and December 31, 2012, the components of intangibles and certain other related information were as follows:

	September 30, 2013			December 31, 2012		
	Gross Amount (in millions)	Accumulated Amortization	Weighted Average Amortization Period (in years)	Gross Amount (in millions)	Accumulated Amortization	Weighted Average Amortization Period (in years)
Amortizable Intangible Assets:						
Developed technology	\$646.5	\$(328.6)	) 11.1	\$644.2	\$(284.5)	) 11.1
Customer relationships	54.6	(16.7)	) 2.7	54.5	(1.2)	) 2.7
Licensing	185.9	(164.2)	) 9.3	185.9	(157.8)	) 9.3
Trademarks	89.5	(28.4)	) 12.4	87.9	(25.3)	) 12.3
Core technology	326.9	(61.0)	) 14.8	93.8	(46.5)	) 14.4
Other	42.3	(20.2)	) 6.3	43.9	(14.1)	) 6.4
	1,345.7	(619.1)	) 11.3	1,110.2	(529.4)	) 10.6
Unamortizable Intangible Assets:						
In-process research and development	962.8	—		279.3	—	
	\$2,308.5	\$(619.1)	)	\$1,389.5	\$(529.4))

Developed technology consists primarily of current product offerings, primarily breast aesthetics products, dermal fillers, skin care products and eye care products acquired in connection with business combinations, asset acquisitions and initial licensing transactions for products previously approved for marketing. Customer relationship assets consist of the estimated value of relationships with customers acquired in connection with business combinations. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and upfront payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Core technology consists of a drug delivery technology acquired in connection with the Company's 2013 acquisition of MAP, proprietary technology associated with silicone gel breast implants acquired in connection with the Company's 2006 acquisition of Inamed Corporation, dermal filler technology acquired in connection with the Company's 2007 acquisition of Groupe Corneal Laboratoires and a drug delivery technology acquired in connection with the Company's 2003 acquisition of Oculex Pharmaceuticals, Inc. Other intangible assets consist primarily of acquired product registration rights, distributor relationships, distribution rights, government permits and non-compete agreements. The in-process research and development assets consist primarily of an orally inhaled drug for the potential acute treatment of migraine in adults acquired in connection with the Company's 2013 acquisition of MAP, a novel compound to treat erythema associated with rosacea acquired in connection with the Company's 2011 acquisition of Vicept Therapeutics, Inc. that is currently under development and an intangible asset associated with technology acquired in connection with the Company's 2011 acquisition of Alacer Biomedical, Inc. that is not yet commercialized.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table provides amortization expense by major categories of intangible assets for the three and nine month periods ended September 30, 2013 and 2012, respectively:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Developed technology	\$ 14.3	\$ 13.6	\$ 42.9	\$ 39.7
Customer relationships	5.1	0.3	15.3	0.8
Licensing	0.7	5.1	6.7	15.3
Trademarks	1.1	0.1	3.3	0.3
Core technology	5.5	1.6	13.9	4.9
Other	2.1	2.1	6.4	6.2
	\$ 28.8	\$ 22.8	\$ 88.5	\$ 67.2

Amortization expense related to acquired intangible assets generally benefits multiple business functions within the Company, such as the Company's ability to sell, manufacture, research, market and distribute products, compounds and intellectual property. The amount of amortization expense excluded from cost of sales consists primarily of amounts amortized with respect to developed technology and licensing intangible assets.

Estimated amortization expense is \$117.7 million for 2013, \$113.1 million for 2014, \$99.5 million for 2015, \$77.6 million for 2016 and \$56.8 million for 2017.

Goodwill

Changes in the carrying amount of goodwill by operating segment through September 30, 2013 were as follows:

	Specialty	Medical	Total
	Pharmaceuticals	Devices	
	(in millions)		
Balance at December 31, 2012	\$ 299.8	\$ 1,834.0	\$ 2,133.8
MAP acquisition	170.5	—	170.5
Exemplar acquisition	14.0	—	14.0
SkinMedica acquisition adjustments	17.3	—	17.3
Foreign exchange translation effects and other	(4.1	) 2.5	(1.6
Balance at September 30, 2013	\$ 497.5	\$ 1,836.5	\$ 2,334.0

The SkinMedica acquisition adjustments primarily relate to adjusting the assigned fair values associated with deferred tax assets and deferred tax liabilities and a contractual purchase price adjustment of \$2.8 million. The Company does not consider the adjustments to be material.

Note 6: Inventories

Components of inventories were:

	September 30,	December 31,
	2013	2012
	(in millions)	
Finished products	\$ 182.6	\$ 179.9
Work in process	37.4	41.3
Raw materials	60.0	51.1
Total	\$ 280.0	\$ 272.3

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

At September 30, 2013 and December 31, 2012, approximately \$11.2 million and \$9.9 million, respectively, of the Company's finished goods inventories, primarily breast implants, were held on consignment at a large number of doctors' offices, clinics and hospitals worldwide. The value and quantity at any one location are not significant.

Note 7: Long-Term Debt

On March 12, 2013, the Company issued concurrently in a registered offering \$250.0 million in aggregate principal amount of 1.35% Senior Notes due 2018 (2018 Notes) and \$350.0 million in aggregate principal amount of 2.80% Senior Notes due 2023 (2023 Notes).

The 2018 Notes, which were sold at 99.793% of par value with an effective interest rate of 1.39%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 1.35% per annum, and are redeemable at any time at the Company's option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption. The aggregate outstanding principal amount of the 2018 Notes will be due and payable on March 15, 2018, unless earlier redeemed by the Company. The original discount of approximately \$0.5 million and the deferred debt issuance costs associated with the 2018 Notes are being amortized using the effective interest method over the stated term of five years.

The 2023 Notes, which were sold at 99.714% of par value with an effective interest rate of 2.83%, are unsecured and pay interest semi-annually on the principal amount of the notes at a rate of 2.80% per annum, and are redeemable at any time at the Company's option, subject to a make-whole provision based on the present value of remaining interest payments at the time of the redemption, if the redemption occurs prior to December 15, 2022 (three months prior to the maturity of the 2023 Notes). If the redemption occurs on or after December 15, 2022, then such redemption is not subject to the make-whole provision. The aggregate outstanding principal amount of the 2023 Notes will be due and payable on March 15, 2023, unless earlier redeemed by the Company. The original discount of approximately \$1.0 million and the deferred debt issuance costs associated with the 2023 Notes are being amortized using the effective interest method over the stated term of 10 years.

Note 8: Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally less than the U.S. federal statutory rate, primarily because of lower tax rates in certain non-U.S. jurisdictions, R&D tax credits available in the United States, California, and other foreign jurisdictions and deductions available in the United States for domestic production activities. The effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pre-tax earnings in the various tax jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected utilization of R&D tax credits and acquired net operating losses, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business. The American Taxpayer Relief Act of 2012 was enacted on January 2, 2013 and retroactively reinstated the U.S. R&D tax credit to January 1, 2012. In fiscal year 2013, the Company has recognized a retroactive benefit of \$15.4 million for the U.S. R&D tax credit for fiscal year 2012. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers.

The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made. The valuation allowance against deferred tax assets was \$24.3 million and \$22.6 million as of September 30, 2013 and December 31, 2012, respectively.

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The total amount of unrecognized tax benefits was \$58.1 million and \$61.9 million as of September 30, 2013 and December 31, 2012, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$51.6 million and \$55.2 million as of September 30, 2013 and December 31, 2012, respectively. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by approximately \$5.0 million to \$6.0 million due to the settlement of income tax audits, Appeals proceedings and Competent Authority negotiations in the United States and certain foreign jurisdictions.

Total interest accrued related to uncertain tax positions included in the Company's unaudited condensed consolidated balance sheets was \$10.7 million and \$10.0 million as of September 30, 2013 and December 31, 2012, respectively.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company has not provided for withholding and U.S. taxes for the unremitted earnings of certain non-U.S. subsidiaries because it has currently reinvested these earnings indefinitely in these foreign operations. At December 31, 2012, the Company had approximately \$3,083.5 million in unremitted earnings outside the United States for which withholding and U.S. taxes were not provided. Income tax expense would be incurred if these earnings were remitted to the United States. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against the Company's U.S. tax liability, if any. The Company annually updates its estimate of unremitted earnings outside the United States after the completion of each fiscal year.

Note 9: Share-Based Compensation

The Company recognizes compensation expense for all share-based awards made to employees and directors. The fair value of share-based awards is estimated at the grant date and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

The fair value of stock option awards that vest based solely on a service condition is estimated using the Black-Scholes option-pricing model. The fair value of share-based awards that contain a market condition is generally estimated using a Monte Carlo simulation model, and the fair value of modifications to share-based awards is generally estimated using a lattice model.

The determination of fair value using the Black-Scholes, Monte Carlo simulation and lattice models is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. The Company currently estimates stock price volatility based upon an equal weighting of the historical average over the expected life of the award and the average implied volatility of at-the-money options traded in the open market. The Company estimates employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

Share-based compensation expense is recognized only for those awards that are ultimately expected to vest, and the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs. Compensation expense for share-based awards based on a service condition is recognized using the straight-line single option method.

For the three and nine month periods ended September 30, 2013 and 2012, share-based compensation expense was as follows:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
	(in millions)			
Cost of sales	\$ 1.6	\$ 1.7	\$ 5.2	\$ 5.0
Selling, general and administrative	18.6	18.0	56.0	52.3
Research and development	7.1	6.5	21.9	20.6
Pre-tax share-based compensation expense	27.3	26.2	83.1	77.9
Income tax benefit	8.6	8.3	26.7	24.9
Net share-based compensation expense	\$ 18.7	\$ 17.9	\$ 56.4	\$ 53.0

As of September 30, 2013, total compensation cost related to non-vested stock options and restricted stock not yet recognized was approximately \$214.4 million, which is expected to be recognized over the next 46 months (32 months on a weighted-average basis). The Company has not capitalized as part of inventory any share-based compensation costs because such costs were negligible as of September 30, 2013.

Note 10: Employee Retirement and Other Benefit Plans

The Company sponsors various qualified defined benefit pension plans covering a substantial portion of its employees. In addition, the Company sponsors two supplemental nonqualified plans covering certain management employees and officers and one retiree health plan covering U.S. retirees and dependents.

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Components of net periodic benefit cost for the three and nine month periods ended September 30, 2013 and 2012, respectively, were as follows:

	Three Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Service cost	\$7.1	\$ 6.4	\$0.4	\$ 0.4
Interest cost	11.5	10.8	0.5	0.5
Expected return on plan assets	(11.2	) (10.8) —	—
Amortization of prior service costs	—	—	(0.7	) (0.7
Recognized net actuarial losses	7.7	6.7	0.4	0.4
Net periodic benefit cost	\$15.1	\$ 13.1	\$0.6	\$ 0.6
	Nine Months Ended			
	Pension Benefits		Other Postretirement Benefits	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Service cost	\$21.3	\$ 19.3	\$1.3	\$ 1.2
Interest cost	34.6	32.9	1.5	1.5
Expected return on plan assets	(33.7	) (32.6) —	—
Amortization of prior service costs	—	—	(2.0	) (2.0
Recognized net actuarial losses	23.2	20.2	1.1	1.0
Net periodic benefit cost	\$45.4	\$ 39.8	\$1.9	\$ 1.7

In 2013, the Company expects to pay contributions of between \$40.0 million and \$50.0 million for its U.S. and non-U.S. pension plans and between \$1.0 million and \$2.0 million for its other postretirement plan.

Note 11: Contingencies

Legal Proceedings

In the ordinary course of business, the Company is involved in various legal actions, government investigations and environmental proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these actions, proceedings and investigations are described below. The following supplements and amends the discussion set forth in Note 12 “Commitments and Contingencies — Legal Proceedings” in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and Note 11 “Contingencies — Legal Proceedings” in the Company's Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2013 and June 30, 2013 and is limited to certain recent developments concerning the Company's legal proceedings.

The Company's legal proceedings range from cases brought by a single plaintiff to a class action with thousands of putative class members. These legal proceedings, as well as other matters, involve various aspects of the Company's business and a variety of claims (including but not limited to patent infringement, marketing, product liability, pricing and trade practices and securities law), some of which present novel factual allegations and/or unique legal theories. Complex legal proceedings frequently extend for several years, and a number of the matters pending against the Company are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable the Company to determine whether the proceeding is material to the Company or to estimate a range of possible loss, if

any. Unless otherwise disclosed, the Company is unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

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Patent Litigation

We are involved in patent litigation matters, including certain paragraph 4 invalidity and non-infringement claims brought under the Hatch-Waxman Act in the United States described below.

Zymar®.

In August 2013, the U.S. District Court for the District of Delaware entered judgment ruling that U.S. Patent Number 6,333,045 ('045 Patent) was invalid. In September 2013, the Company, with Senju Pharmaceuticals Co., Ltd. (Senju) and Kyorin Pharmaceutical Co., Ltd. (Kyorin), filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit and a motion for injunction pending appeal, which motion was denied.

Zymaxid®.

In August 2013, the U.S. District Court for the District of Delaware entered judgment in favor of Lupin Limited (Lupin) and Hi-Tech Pharmaceutical Co., Inc. (Hi-Tech) ruling that the '045 patent was invalid. In September 2013, the Company, with Senju and Kyorin, filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit and a motion for injunction pending appeal, which motion was denied.

In October 2013, the U.S. District Court for the District of Delaware dismissed the complaint against Apotex, Inc. (Apotex) alleging infringement of the '045 patent, subject to the appeal pending in the U.S. Court of Appeals for the Federal Circuit involving the '045 patent and Lupin and Hi-Tech.

In September 2013, Strides, Inc. and Agila Specialties Private Limited filed a motion to dismiss based upon the U.S. District Court for the District of Delaware's judgment in favor of Lupin and Hi-Tech ruling that the '045 patent was invalid and for lack of subject matter jurisdiction.

Combigan®.

In September and October 2013, Sandoz, Inc., Alcon Research, Ltd, and Apotex filed a motion seeking to modify the permanent injunction issued by the U.S. District Court for the Eastern District of Texas.

Other Litigation

Allergan, Inc. v. Cayman Chemical Company, et al. In October 2013, the U.S. Court of Appeals for the Federal Circuit heard oral argument on Athena Cosmetics Inc.'s appeal and took the matter under submission.

Contingencies

In 2009, the Company established a reserve for a contingent liability associated with regulation changes resulting from a final rule issued by the U.S. Department of Defense (DoD) that placed retroactive and prospective pricing limits on certain branded pharmaceuticals under the TRICARE Retail Pharmacy Program, even though such branded pharmaceuticals have not historically been subject to a contract with the Company. As of December 31, 2012, the reserve for the contingent liability was \$21.7 million and was included in "Other accrued expenses." In January 2013, the United States Court of Appeals for the District of Columbia Circuit affirmed an earlier decision by the United States District Court for the District of Columbia in favor of the DoD, and the Company subsequently paid all outstanding contingent TRICARE Retail Pharmacy Program claims.

As of June 1, 2012 the Company is largely self-insured for future product liability losses related to all of its products. Future product liability losses are, by their nature, uncertain and are based upon complex judgments and probabilities. The Company accrues for certain potential product liability losses estimated to be incurred, but not reported, to the extent they can be reasonably estimated. The Company estimates these accruals for potential losses based primarily on historical claims experience and data regarding product usage. The total value of self-insured product liability claims settled in the third quarter and the first nine months of 2013 and 2012, respectively, and the value of known and reasonably estimable incurred but unreported self-insured product liability claims pending as of September 30, 2013 are not material.

The Company has provided reserves for contingencies related to various lawsuits, claims and contractual disputes that management believes are probable and reasonably estimable. The amounts reserved for these contingencies as of September 30, 2013 are not material.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 12: Guarantees

The Company's Amended and Restated Certificate of Incorporation provides that the Company will indemnify, to the fullest extent permitted by the Delaware General Corporation Law, each person that is involved in or is, or is threatened to be, made a party to any action, suit or proceeding by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Company or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise. The Company has also entered into contractual indemnity agreements with each of its directors and executive officers pursuant to which, among other things, the Company has agreed to indemnify such directors and executive officers against any payments they are required to make as a result of a claim brought against such executive officer or director in such capacity, excluding claims (i) relating to the action or inaction of a director or executive officer that resulted in such director or executive officer gaining illegal personal profit or advantage, (ii) for an accounting of profits made from the purchase or sale of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law or (iii) that are based upon or arise out of such director's or executive officer's knowingly fraudulent, deliberately dishonest or willful misconduct. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited. However, the Company has purchased directors' and officers' liability insurance policies intended to reduce the Company's monetary exposure and to enable the Company to recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions, but makes no assurance that such amounts will not be paid in the future. The Company currently believes the estimated fair value of these indemnification arrangements is minimal.

The Company customarily agrees in the ordinary course of its business to indemnification provisions in agreements with clinical trials investigators in its drug, biologics and medical device development programs, in sponsored research agreements with academic and not-for-profit institutions, in various comparable agreements involving parties performing services for the Company in the ordinary course of business, and in its real estate leases. The Company also customarily agrees to certain indemnification provisions in its acquisition agreements and discovery and development collaboration agreements. With respect to the Company's clinical trials and sponsored research agreements, these indemnification provisions typically apply to any claim asserted against the investigator or the investigator's institution relating to personal injury or property damage, violations of law or certain breaches of the Company's contractual obligations arising out of the research or clinical testing of the Company's products, compounds or drug candidates. With respect to real estate lease agreements, the indemnification provisions typically apply to claims asserted against the landlord relating to personal injury or property damage caused by the Company, to violations of law by the Company or to certain breaches of the Company's contractual obligations. The indemnification provisions appearing in the Company's acquisition agreements and collaboration agreements are similar, but in addition often provide indemnification for the collaborator in the event of third party claims alleging infringement of intellectual property rights. In each of the above cases, the terms of these indemnification provisions generally survive the termination of the agreement. The maximum potential amount of future payments that the Company could be required to make under these provisions is generally unlimited. The Company has purchased insurance policies covering personal injury, property damage and general liability intended to reduce the Company's exposure for indemnification and to enable the Company to recover a portion of any future amounts paid. The Company has not previously paid any material amounts to defend lawsuits or settle claims as a result of these indemnification provisions. As a result, the Company believes the estimated fair value of these indemnification arrangements is minimal.

Note 13: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities in the Company's consolidated balance sheets. The U.S. programs include the ConfidencePlu® and ConfidencePlus® Premier warranty programs. The ConfidencePlus® program, which is limited to saline breast implants, currently provides lifetime product replacement, \$1,200 of financial assistance for surgical procedures within ten years of implantation and contralateral implant replacement. The ConfidencePlus® Premier program, which is standard for silicone gel implants and requires a low enrollment fee for saline breast implants, generally provides lifetime product replacement, \$2,400 of financial assistance for saline breast implants and \$3,500 of financial assistance for silicone gel breast implants for surgical procedures within ten years of implantation and contralateral implant replacement. The warranty programs in non-U.S. markets have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact

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on the actuarial analysis and the Company's estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

The following table provides a reconciliation of the change in estimated product warranty liabilities through September 30, 2013:

	(in millions)
Balance at December 31, 2012	\$ 34.4
Provision for warranties issued during the period	5.8
Settlements made during the period	(5.4)
Decreases in warranty estimates	(0.7)
Balance at September 30, 2013	\$ 34.1
Current portion	\$ 7.5
Non-current portion	26.6
Total	\$ 34.1

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Note 14: Earnings Per Share

The table below presents the computation of basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
	(in millions, except per share amounts)			
Net earnings attributable to Allergan, Inc.:				
Earnings from continuing operations attributable to Allergan, Inc.:				
Earnings from continuing operations	\$ 332.9	\$ 252.9	\$ 959.9	\$ 778.4
Less net earnings attributable to noncontrolling interest	1.0	1.2	4.2	2.7
Earnings from continuing operations attributable to Allergan, Inc.	331.9	251.7	955.7	775.7
Loss from discontinued operations	(32.1	) (2.3	) (283.5	) (1.1
Net earnings attributable to Allergan, Inc.	\$ 299.8	\$ 249.4	\$ 672.2	\$ 774.6
Weighted average number of shares outstanding				
Net shares assumed issued using the treasury stock method for options and non-vested equity shares and share units outstanding during each period based on average market price	296.5	300.1	296.7	302.1
Diluted shares	300.7	305.3	301.9	307.7
Basic earnings per share attributable to Allergan, Inc. stockholders:				
Continuing operations	\$ 1.12	\$ 0.84	\$ 3.22	\$ 2.57
Discontinued operations	(0.11	) (0.01	) (0.95	) (0.01
Net basic earnings per share attributable to Allergan, Inc. stockholders	\$ 1.01	\$ 0.83	\$ 2.27	\$ 2.56
Diluted earnings per share attributable to Allergan, Inc. stockholders:				
Continuing operations	\$ 1.10	\$ 0.82	\$ 3.17	\$ 2.52
Discontinued operations	(0.10	) —	(0.94) —
Net diluted earnings per share attributable to Allergan, Inc. stockholders	\$ 1.00	\$ 0.82	\$ 2.23	\$ 2.52

For the three and nine month periods ended September 30, 2013, options to purchase 8.1 million and 5.6 million shares of common stock at exercise prices ranging from \$84.40 to \$113.55 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

For the three and nine month periods ended September 30, 2012, options to purchase 4.5 million and 5.9 million shares of common stock at exercise prices ranging from \$76.98 to \$92.90 and \$75.58 to \$92.90 per share, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect from the assumed exercise of these options calculated under the treasury stock method would be anti-dilutive.

Note 15: Financial Instruments

In the normal course of business, operations of the Company are exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates. The Company addresses these risks through controlled risk management that includes

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the use of derivative financial instruments to economically hedge or reduce these exposures. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company has not experienced any losses to date on its derivative financial instruments due to counterparty credit risk.

To ensure the adequacy and effectiveness of its interest rate and foreign exchange hedge positions, the Company continually monitors its interest rate swap positions and foreign exchange forward and option positions both on a stand-alone basis and in conjunction with its underlying interest rate and foreign currency exposures, from an accounting and economic perspective.

However, given the inherent limitations of forecasting and the anticipatory nature of the exposures intended to be hedged, the Company cannot assure that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in either interest or foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to mark-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's consolidated operating results and financial position.

Interest Rate Risk Management

The Company's interest income and expense are more sensitive to fluctuations in the general level of U.S. interest rates than to changes in rates in other markets. Changes in U.S. interest rates affect the interest earned on cash and equivalents and short-term investments and interest expense on debt, as well as costs associated with foreign currency contracts.

On January 31, 2007, the Company entered into a nine-year, two month interest rate swap with a \$300.0 million notional amount. The swap received interest at a fixed rate of 5.75% and paid interest at a variable interest rate equal to 3-month LIBOR plus 0.368%, and effectively converted \$300.0 million of the Company's \$800.0 million in aggregate principal amount of 5.75% Senior Notes due 2016 (2016 Notes) to a variable interest rate. Based on the structure of the hedging relationship, the hedge met the criteria for using the short-cut method for a fair value hedge. In September 2012, the Company terminated the interest rate swap and received \$54.7 million, which included accrued interest of \$3.7 million. Upon termination of the interest rate swap, the Company added the net fair value received of \$51.0 million to the carrying value of the 2016 Notes. The amount received for the termination of the interest rate swap is being amortized as a reduction to interest expense over the remaining life of the debt, which effectively fixes the interest rate for the remaining term of the 2016 Notes at 3.94%. During the three and nine month periods ended September 30, 2013, the Company recognized \$3.3 million and \$9.8 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap. During the three and nine month periods ended September 30, 2012, the Company recognized \$3.2 million and \$10.6 million, respectively, as a reduction of interest expense due to the effect of the interest rate swap.

In February 2006, the Company entered into interest rate swap contracts based on 3-month LIBOR with an aggregate notional amount of \$800.0 million, a swap period of 10 years and a starting swap rate of 5.198%. The Company entered into these swap contracts as a cash flow hedge to effectively fix the future interest rate for the 2016 Notes. In April 2006, the Company terminated the interest rate swap contracts and received approximately \$13.0 million. The total gain was recorded to accumulated other comprehensive loss and is being amortized as a reduction to interest expense over a 10 year period to match the term of the 2016 Notes. During the three and nine month periods ended September 30, 2013 and 2012, the Company recognized \$0.3 million and \$1.0 million, respectively, as a reduction of interest expense due to the amortization of deferred holding gains on derivatives designated as cash flow hedges. These amounts were reclassified from accumulated other comprehensive loss. As of September 30, 2013, the remaining unrecognized gain of \$3.3 million (\$2.0 million, net of tax) is recorded as a component of accumulated other comprehensive loss. The Company expects to reclassify an estimated pre-tax amount of \$1.3 million from accumulated other comprehensive loss as a reduction in interest expense during fiscal year 2013 due to the amortization of deferred holding gains on derivatives designated as cash flow hedges.

Foreign Exchange Risk Management

Overall, the Company is a net recipient of currencies other than the U.S. dollar and, as such, benefits from a weaker dollar and is adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect the Company's consolidated revenues or operating costs and expenses as expressed in U.S. dollars.

From time to time, the Company enters into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to economically

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offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. The Company enters into foreign currency option and forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures, generally for periods not to exceed 18 months. The Company does not designate these derivative instruments as accounting hedges.

The Company uses foreign currency option contracts, which provide for the sale or purchase of foreign currencies, to economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of the Company's business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw material in currencies other than the U.S. dollar. The foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures.

Changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as "Other, net" in the accompanying unaudited condensed consolidated statements of earnings. During the three and nine month periods ended September 30, 2013, the Company recognized realized gains on settled foreign currency option contracts of \$2.3 million and \$3.9 million, respectively, and net unrealized (losses) gains on open foreign currency option contracts of \$(7.6) million and \$4.3 million, respectively. During the three and nine month periods ended September 30, 2012, the Company recognized realized gains on settled foreign currency option contracts of \$3.8 million and \$10.8 million, respectively, and net unrealized losses on open foreign currency option contracts of \$7.1 million and \$15.2 million, respectively. The premium costs of purchased foreign exchange option contracts are recorded in "Other current assets" and amortized to "Other, net" over the life of the options.

All of the Company's outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through "Other, net" in the accompanying unaudited condensed consolidated statements of earnings. During the three and nine month periods ended September 30, 2013, the Company recognized total realized and unrealized gains from foreign exchange forward contracts of \$0.3 million and \$3.5 million, respectively. During the three and nine month periods ended September 30, 2012, the Company recognized total realized and unrealized losses from foreign exchange forward contracts of \$0.7 million and \$1.9 million, respectively.

The fair value of outstanding foreign exchange option and forward contracts, collectively referred to as foreign currency derivative financial instruments, are recorded in "Other current assets" and "Accounts payable." At September 30, 2013 and December 31, 2012, foreign currency derivative assets associated with the foreign exchange option contracts of \$10.9 million and \$9.9 million, respectively, were included in "Other current assets." At September 30, 2013 and December 31, 2012, net foreign currency derivative assets associated with the foreign exchange forward contracts of \$0.4 million and \$0.3 million, respectively, were included in "Other current assets." At September 30, 2013 and December 31, 2012, the notional principal and fair value of the Company's outstanding foreign currency derivative financial instruments were as follows:

	September 30, 2013		December 31, 2012	
	Notional Principal	Fair Value	Notional Principal	Fair Value
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	\$46.2	\$(0.1)	\$44.6	\$0.3
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	40.1	0.5	39.6	—
Foreign currency sold — put options	407.0	10.9	501.6	9.9

The notional principal amounts provide one measure of the transaction volume outstanding as of September 30, 2013 and December 31, 2012, and do not represent the amount of the Company's exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of September 30, 2013 and December 31, 2012. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

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Other Financial Instruments

At September 30, 2013 and December 31, 2012, the Company's other financial instruments included cash and equivalents, short-term investments, trade receivables, non-marketable equity investments, accounts payable and borrowings. The carrying amount of cash and equivalents, short-term investments, trade receivables and accounts payable approximates fair value due to the short-term maturities of these instruments. The fair value of non-marketable equity investments, which represent investments in start-up technology companies, are estimated based on information provided by these companies. The fair value of notes payable and long-term debt are estimated based on quoted market prices and interest rates.

The carrying amount and estimated fair value of the Company's other financial instruments at September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and equivalents	\$2,686.3	\$2,686.3	\$2,701.8	\$2,701.8
Short-term investments	524.6	524.6	260.6	260.6
Non-current non-marketable equity investments	6.1	6.1	9.0	9.0
Notes payable	37.2	37.2	48.8	48.8
Long-term debt	2,101.5	2,181.4	1,512.4	1,673.0

In the first quarter of 2013, the Company recorded an impairment charge of \$3.7 million due to the other than temporary decline in value of a non-marketable equity investment.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk principally consist of trade receivables. Wholesale distributors, major retail chains and managed care organizations account for a substantial portion of trade receivables. This risk is limited due to the number of customers comprising the Company's customer base, and their geographic dispersion. At September 30, 2013, no single customer represented more than 10% of trade receivables, net. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. The Company has purchased an insurance policy intended to reduce the Company's exposure to potential credit risks associated with certain U.S. customers. To date, no claims have been made against the insurance policy. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not historically exceeded management's estimates.

Note 16: Fair Value Measurements

The Company measures fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of September 30, 2013 and December 31, 2012, the Company has certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include cash equivalents, short-term investments, foreign exchange derivatives, deferred executive compensation investments and liabilities and contingent consideration liabilities. These assets and liabilities are classified in the table below in one of the three categories of the fair value hierarchy described above.

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	September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	\$1,641.2	\$—	\$1,641.2	\$—
Foreign time deposits	312.9	—	312.9	—
Other cash equivalents	1,022.6	—	1,022.6	—
Foreign exchange derivative assets	11.3	—	11.3	—
Deferred executive compensation investments	93.0	74.2	18.8	—
	\$3,081.0	\$74.2	\$3,006.8	\$—
Liabilities				
Deferred executive compensation liabilities	\$85.2	\$66.4	\$18.8	\$—
Contingent consideration liabilities	212.5	—	—	212.5
	\$297.7	\$66.4	\$18.8	\$212.5
	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Commercial paper	\$1,709.0	\$—	\$1,709.0	\$—
Foreign time deposits	341.7	—	341.7	—
Other cash equivalents	685.0	—	685.0	—
Foreign exchange derivative assets	10.2	—	10.2	—
Deferred executive compensation investments	81.7	66.8	14.9	—
	\$2,827.6	\$66.8	\$2,760.8	\$—
Liabilities				
Deferred executive compensation liabilities	\$73.5	\$58.6	\$14.9	\$—
Contingent consideration liabilities	224.3	—	—	224.3
	\$297.8	\$58.6	\$14.9	\$224.3

Cash equivalents consist of commercial paper, foreign time deposits and other cash equivalents. Other cash equivalents consist primarily of money-market fund investments. Short-term investments consist of commercial paper. Cash equivalents and short-term investments are valued at cost, which approximates fair value due to the short-term maturities of these instruments. Foreign currency derivative assets and liabilities are valued using quoted forward foreign exchange prices and option volatility at the reporting date. The Company believes the fair values assigned to its derivative instruments as of September 30, 2013 and December 31, 2012 are based upon reasonable estimates and assumptions. Assets and liabilities related to deferred executive compensation consist of actively traded mutual funds classified as Level 1 and money-market funds classified as Level 2.

Contingent consideration liabilities represent future amounts the Company may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales performance and the achievement of certain future development, regulatory and sales milestones and other contractual performance conditions. The Company evaluates its estimates of the fair value of contingent consideration liabilities on a periodic basis. Any changes in the fair value of contingent consideration liabilities are recorded as SG&A expense.

The Company estimates the fair value of the contingent consideration liabilities related to sales performance using the income approach, which involves forecasting estimated future net cash flows and discounting the net cash flows to their present value using a risk-adjusted rate of return. The Company estimates the fair value of the contingent

consideration liabilities related to the achievement of future development and regulatory milestones by assigning an achievement probability to each potential milestone and discounting the associated cash payment to its present value using a risk-adjusted rate of return. The Company

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estimates the fair value of the contingent consideration liabilities associated with sales milestones by employing Monte Carlo simulations to estimate the volatility and systematic relative risk of revenues subject to sales milestone payments and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. The fair value of other contractual performance conditions is measured by assigning an achievement probability to each payment and discounting the payment to its present value using the Company's estimated cost of borrowing. The unobservable inputs to the valuation models that have the most significant effect on the fair value of the Company's contingent consideration liabilities are the probabilities that certain in-process development projects will meet specified development milestones, including ultimate approval by the FDA. The Company currently estimates that the probabilities of success in meeting the specified development milestones are between 40% and 75%. The following table provides a reconciliation of the change in the contingent consideration liabilities through September 30, 2013:

	(in millions)
Balance at December 31, 2012	\$224.3
Change in the estimated fair value of the contingent consideration liabilities	4.8
Payments made during the period	(11.1)
Foreign exchange translation effects	(5.5)
Balance at September 30, 2013	\$212.5

Note 17: Business Segment Information

The Company operates its business on the basis of two reportable segments — specialty pharmaceuticals and medical devices. The specialty pharmaceuticals segment produces a broad range of pharmaceutical products, including: ophthalmic products for dry eye, glaucoma, inflammation, infection, allergy and retinal disease; Botox® for certain therapeutic and aesthetic indications; skin care products for acne, psoriasis, eyelash growth and other prescription and physician-dispensed skin care products; and urologics products. The medical devices segment produces a broad range of medical devices, including: breast implants for augmentation, revision and reconstructive surgery and tissue expanders; and facial aesthetics products. The Company provides global marketing strategy teams to ensure development and execution of a consistent marketing strategy for its products in all geographic regions that share similar distribution channels and customers.

The Company evaluates segment performance on a product net sales and operating income basis exclusive of general and administrative expenses and other indirect costs, legal settlement expenses, impairment of intangible assets and related costs, restructuring charges, amortization of certain identifiable intangible assets related to business combinations, asset acquisitions and related capitalized licensing costs and certain other adjustments, which are not allocated to the Company's segments for performance assessment by the Company's chief operating decision maker. Other adjustments excluded from the Company's segments for performance assessment represent income or expenses that do not reflect, according to established Company-defined criteria, operating income or expenses associated with the Company's core business activities. Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not discretely allocate assets to its operating segments, nor does the Company's chief operating decision maker evaluate operating segments using discrete asset information.

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Operating Segments

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in millions)			
Product net sales:				
Specialty pharmaceuticals	\$ 1,329.8	\$ 1,178.5	\$ 3,909.3	\$ 3,530.6
Medical devices	198.6	175.2	628.6	570.9
Total product net sales	1,528.4	1,353.7	4,537.9	4,101.5
Other revenues	30.3	22.8	78.1	73.0
Total revenues	\$ 1,558.7	\$ 1,376.5	\$ 4,616.0	\$ 4,174.5
Operating income:				
Specialty pharmaceuticals	\$ 593.4	\$ 503.4	\$ 1,652.8	\$ 1,449.8
Medical devices	58.5	49.6	188.2	169.4
Total segments	651.9	553.0	1,841.0	1,619.2
General and administrative expenses, other indirect costs and other adjustments	133.4	177.9	401.2	418.9
Amortization of intangible assets (a)	27.7	17.0	80.4	49.5
Restructuring charges	0.6	0.6	4.9	1.5
Total operating income	\$ 490.2	\$ 357.5	\$ 1,354.5	\$ 1,149.3

(a) Represents amortization of certain identifiable intangible assets related to business combinations, asset acquisitions and related capitalized licensing costs, as applicable.

Product net sales for the Company's various global product portfolios are presented below. The Company's principal geographic markets are the United States, Europe, Latin America and Asia Pacific. The U.S. information is presented separately as it is the Company's headquarters country. U.S. sales represented 62.5% and 62.1% of the Company's total consolidated product net sales for the three month periods ended September 30, 2013 and 2012, respectively. U.S. sales represented 61.5% and 60.8% of the Company's total consolidated product net sales for the nine month periods ended September 30, 2013 and 2012, respectively.

Sales to two customers in the Company's specialty pharmaceuticals segment each generated over 10% of the Company's total consolidated product net sales. Sales to McKesson Drug Company for the three month periods ended September 30, 2013 and 2012 were 16.0% and 14.1%, respectively, of the Company's total consolidated product net sales, and 14.8% and 15.0%, respectively, of the Company's total consolidated product net sales for the nine month periods ended September 30, 2013 and 2012. Sales to Cardinal Health, Inc. for the three month periods ended September 30, 2013 and 2012 were 13.7% and 16.3%, respectively, of the Company's total consolidated product net sales, and 14.1% and 14.8%, respectively, of the Company's total consolidated product net sales for the nine month periods ended September 30, 2013 and 2012. No other country or single customer generates over 10% of the Company's total consolidated product net sales. Net sales for the Europe region also include sales to customers in Africa and the Middle East, and net sales in the Asia Pacific region include sales to customers in Australia and New Zealand.

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Product Net Sales by Product Line

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
	(in millions)			
Specialty Pharmaceuticals:				
Eye Care Pharmaceuticals	\$717.1	\$ 663.2	\$2,108.1	\$ 1,986.1
Botox [®] /Neuromodulators	485.7	431.6	1,456.6	1,291.7
Skin Care and Other	127.0	83.7	344.6	252.8
Total Specialty Pharmaceuticals	1,329.8	1,178.5	3,909.3	3,530.6
Medical Devices:				
Breast Aesthetics	91.9	86.1	288.3	285.7
Facial Aesthetics	106.7	89.1	340.3	285.2
Total Medical Devices	198.6	175.2	628.6	570.9
Total product net sales	\$1,528.4	\$ 1,353.7	\$4,537.9	\$ 4,101.5

Geographic Information

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
	(in millions)			
Product net sales:				
United States	\$955.6	\$ 840.0	\$2,791.9	\$ 2,494.1
Europe	282.6	246.5	909.5	816.5
Latin America	104.6	93.6	286.5	282.7
Asia Pacific	117.8	109.7	348.7	318.6
Other	67.8	63.9	201.3	189.6
Total product net sales	\$1,528.4	\$ 1,353.7	\$4,537.9	\$ 4,101.5
			September 30,	December 31,
			2013	2012
			(in millions)	
Long-lived assets:				
United States			\$4,289.2	